

ASSESSMENT OF INVENTORY AMOUNTS

Determinations as to the reasonableness of amounts shown in the general ledger accounts and reported in financial statements shall be based on a top-down approach. This approach is necessary because the size of DoD inventories normally precludes a 100 percent physical inventory.

a. As a first step, the balance in the inventory general ledger account shall be compared to logistic records. This comparison shall reconcile differences resulting from inventory receipts and issues that were not posted to the general ledger accounts but that were recorded in logistic records or vice versa. The purpose of this reconciliation is to support a management determination that the balances in the accounting system and the logistics system are in substantial agreement.

b. When the reconciliation of the logistic records to the general ledger account balances is completed, physical inventories shall be taken to ensure that the number of items reflected in logistic records are reasonably accurate. The reconciliation process is displayed in illustrations 1 through 4 of this addendum. Illustration 4 is a work sheet intended to demonstrate the overall reconciliation of the general ledger accounts with the logistic records. As such it is usable for both stages of the reconciliation process.

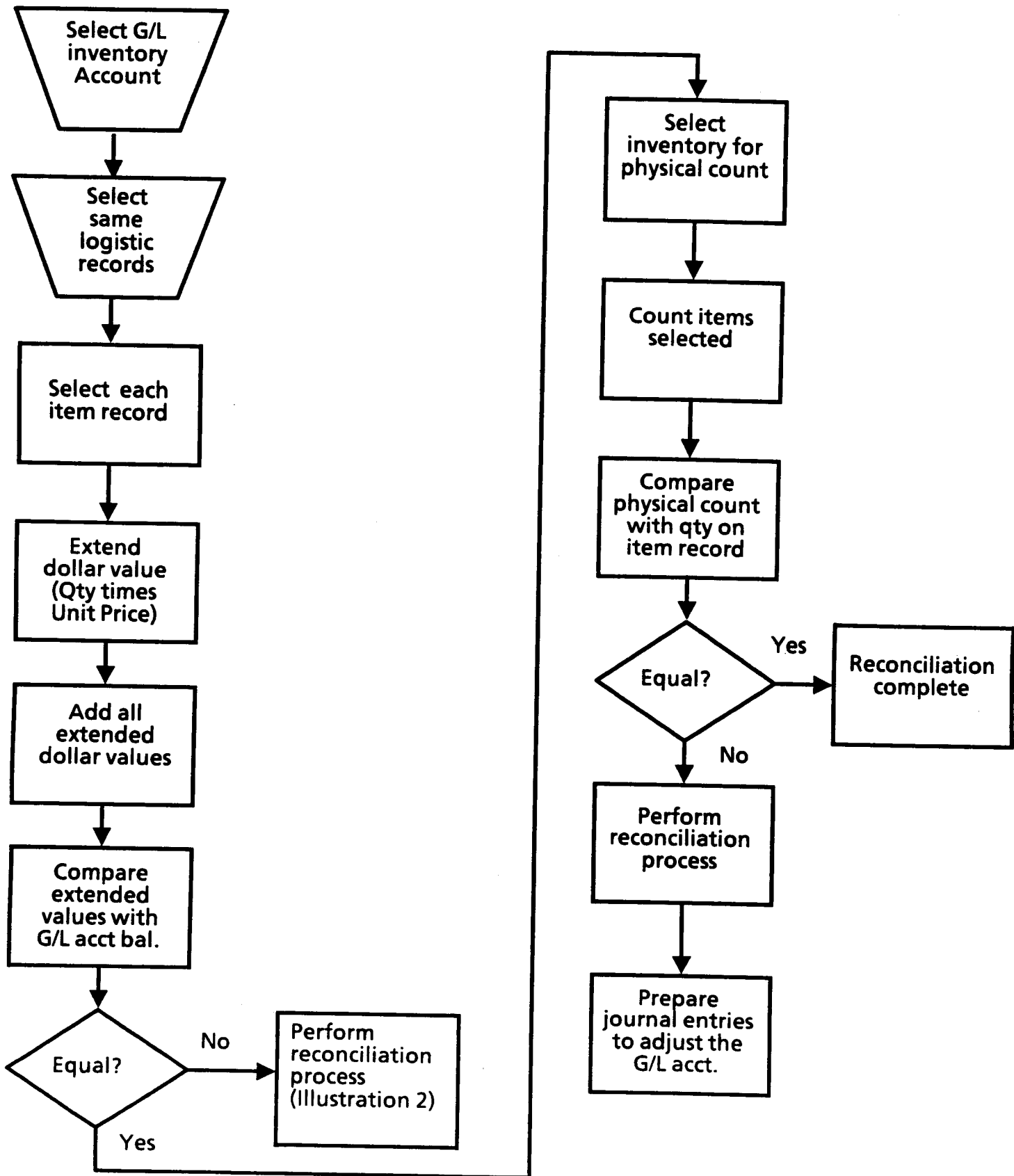
c. Physical counts of DoD inventories shall be taken periodically and must be designed to provide a reasonable assurance that logistic records accurately reflect on hand quantities. The sizes of these inventories preclude a 100 percent count except in unusual circumstances such as a major breakdown in internal controls. Therefore, it is frequently necessary to use statistical sampling techniques. Acceptable statistical sampling techniques are widely prescribed and any acceptable technique may be used so long as every item included in inventory has a probability of selection. When a DoD Component elects to use statistical sampling techniques the results must be such as to provide reasonable assurance that the general ledger accounts are accurate with a 90 percent level of confidence and a precision level of + or - 2.5 percent.

d. Care must be taken to consider infloat documentation, i.e., receipts and issues before reaching any conclusions that property records are not accurate.

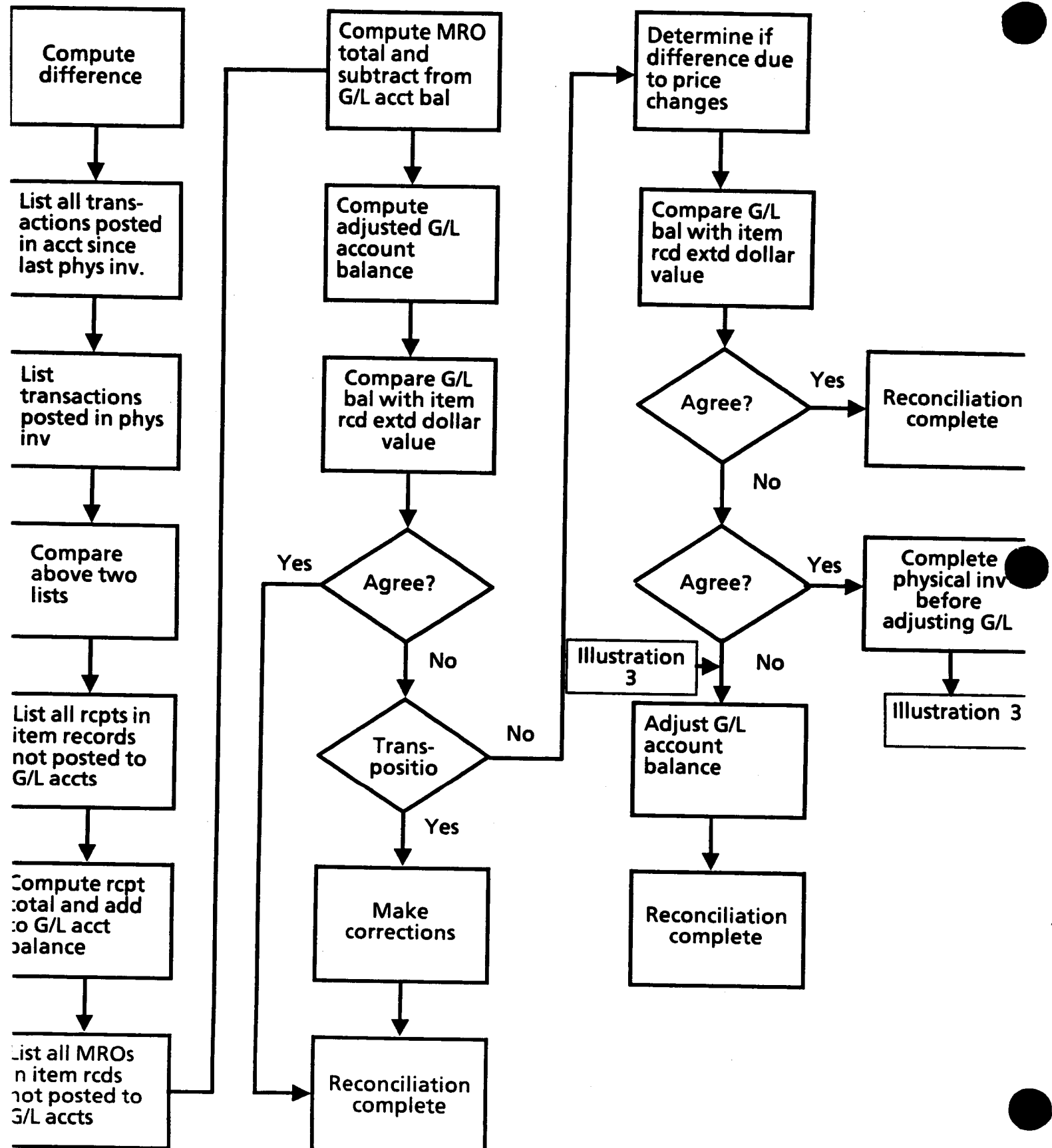
e. Adjustments to logistic records and financial records shall be made only for those specific items where the physical counts or supporting documentation (e.g., receiving reports, inventory records, issue documents) disclose overages or underages. However, there should be a statistical projection of the dollar impact on the financial records. If the dollar value is material, the sample size should be increased and another estimate of the impact made. If this estimate also discloses a material impact then a complete inventory shall be taken or the financial statements qualified to disclose the fact that the reported inventory values are inaccurate. Failure to conduct required physical inventories shall be disclosed as a material weakness in Section 4 of the Federal Managers' Financial Integrity Act statement if the inventory dollar value is significant.

f. Adjustments to the general ledger accounts and the item logistic records shall be supported by a DD Form 200 "Report of Survey," prepared in accordance with DoD Manual 7200.10-M, "Department of Defense Accounting and Reporting for Government Property Lost, Damaged, or Destroyed." DD Form 200 is used for preparing the government property lost, gained, damaged or destroyed report on inventory.

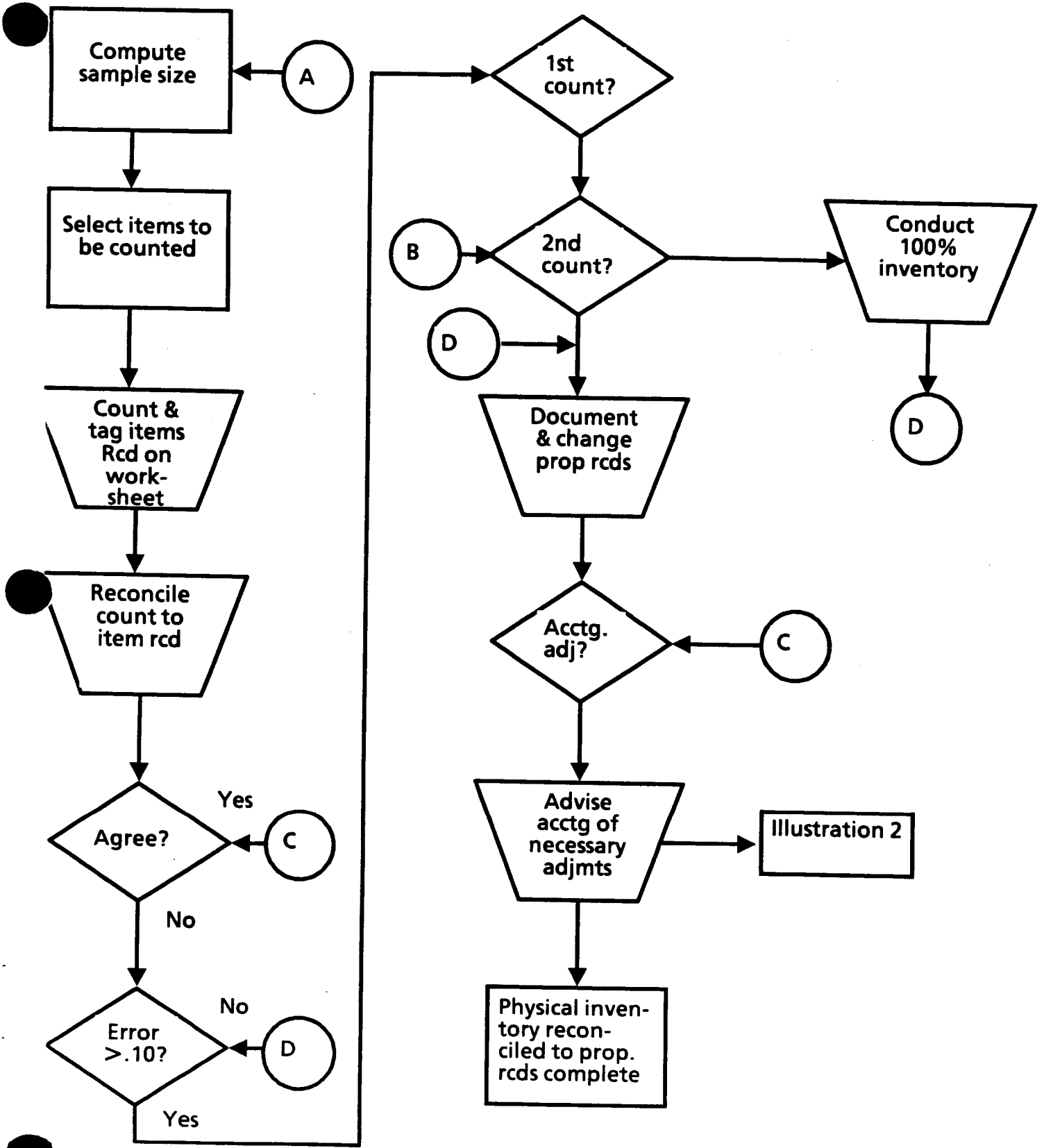
INVENTORY RECONCILIATION PROCESS - SUMMARY



INVENTORY RECONCILIATION PROCESS -
GENERAL LEDGER/ITEM PROPERTY ACCOUNTABILITY RECORDS



INVENTORY RECONCILIATION PROCESS -
PHYSICAL COUNT PROCEDURE



INVENTORY RECONCILIATION PROCESS -
GENERAL LEDGER/ITEM ACCOUNTABILITY RECORDS WORK SHEET

Balance in G/L acct	\$ _____	Total of item accountability records	\$ _____
DD:		ADD:	
Inventory receipts not recorded in G/L acct	\$ _____	Increases to G/L acct not made to item accountability records (List on separate sheet)	\$ _____
Price increases not recorded in G/L acct	\$ _____		
Other increases to inventory not recorded in G/L acct (List on separate sheet)	\$ _____		
Total additions	\$ _____		
SUBTRACT:			
IBTRACT:		Decreases to G/L acct not made to item accountability records (List on separate sheet)	
Inventory issues not recorded in G/L acct	\$ _____		\$ _____
Price decreases not recorded in G/L acct	\$ _____		
Other decreases to inventory not recorded in G/L acct (List on separate sheet)	\$ _____		
Total subtractions	\$ _____	Adjusted item accountability records balance	\$ _____
Adjusted G/L acct balance	\$ _____		